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SUBJECT: SENATOR HAGEL MEETS PRESIDENT LEE

REF: SEOUL 02052 (SENATOR HAGEL MEETS ROKG OFFICIALS)

¶1. (SBU) SUMMARY: South Korean President Lee Myoung-bak received visiting Senator Chuck Hagel, accompanied by Ambassador Stephens, October 15 for a lengthy, cordial meeting that exceeded the allotted 30 minutes. NSA Advisor Kim also participated. President Lee was interested in hearing Senator Hagel's assessment of the U.S. financial crisis and of prospects for FTA ratification. Lee expressed confidence in underlying U.S. economic strength and resilience but said Koreans were "nervous," adding that any emerging financial architecture should include Korea. On North Korea, President Lee emphasized his strong support for recent U.S. steps in delisting the DPRK and reaching a verification agreement, observing that stronger parties sometimes have to be more flexible in the short term in order to achieve their larger goals. END SUMMARY

¶2. (SBU) After initial pleasantries, President Lee turned to the global financial crisis, noting Korean nervousness about the situation and asking Senator Hagel's assessment of the expected length and depth of the crisis. Senator Hagel said he thought recent USG actions -- both alone and in concert with other governments and allies -- would instill a sense of confidence and free up liquidity. But, he added, a regulatory system for the 21st century was needed to address fundamental problems, starting with the housing market and the sub-prime mortgage problem. Senator Hagel said the ROK would be very important in that regard going forward.

¶3. (SBU) President Lee described the U.S. response to the financial crisis as "massive and swift." But worries in Korea were somewhat higher than in China or Japan, or perhaps in Europe, he said, because of Korea's financial crisis in the '90s. Expressing confidence that the U.S. recovery would be quicker than Europe's, Lee asked how long it would be before actions being taken in the U.S. and elsewhere produced results. The U.S. economy's size, flexibility, and resilience notwithstanding, the Senator noted the crisis had touched everything and would require time -- possibly one to one and a half years -- to correct.

¶4. (SBU) President Lee linked the South Korean economy's performance to the need to help North Korea; the ROK spends billions helping the north, and it needs a strong economy. When the U.S. removed the DPRK from its list of state sponsors of terrorism, some said the U.S. had given in to North Korean brinksmanship. But in dealing with a weak partner like the north, the strong side (the U.S.) needs to give two meters in order for the DPRK to give one meter. Senator Hagel agreed.

¶5. (SBU) On the KORUS FTA, President Lee said he recognized "you will be busy" during the U.S. election season, but that he strongly believed the FTA was good for both countries, both in terms of trade and the economy and the overall relationship. President Lee said he would continue to work for ratification in Korea. Senator Hagel, noting that he had

consistently supported the KORUS FTA, said the brief November "lame duck" session in Congress was unlikely to take up the FTA; while there was always the possibility of earlier action, it was more likely to be considered in 2009. The Senator said he was hopeful that out of the financial crisis would come a stronger understanding of the importance of strong FTAs and of trade relations overall. President Lee reiterated his "deep confidence" that "we will continue to have an in-depth discussion on the merits of the FTA."

¶6. (SBU) President Lee concluded by noting to Senator Hagel the warm welcome Ambassador Stephens had received from the Korean people and the high expectations Koreans had that she would contribute to strengthening bilateral cooperation on all fronts, including in addressing the problems of North Korea.

¶7. (U) CODEL Hagel cleared this message.
STEPHENS